

**JANUARY 2003 EDITION OF THE DCAA CONTRACT AUDIT
MANUAL --DCAAM 7640.1
NOTES ON SUBSTANTIVE CHANGES**

Chapter 1

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| 1-1S1 | Current version of the DoD Directive 5105.36, Defense Contract Audit Agency Charter, dated February 28, 2002 |
| 1-800 | Delete section on PROCAS and remove term from the list of acronyms. |

Chapter 2

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| 2-203 and
2-S10 | Revised to incorporate requirements of Government Auditing Standards (Yellow Book) Amendment No. 3, Auditor Independence, and to incorporate new Agency policies and procedures resulting from this amendment. |
| 2-305 | Expands guidance in 2-305a stating that working papers that support significant findings, conclusions, and recommendations should be complete before auditors issue their report and directs auditors to 4-409 for guidance on significant revisions to the audit working papers after the audit report is issued. |

Chapter 4

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| 4-407 | Modifies guidance by removing the requirement to print out certain working paper package documents. Also adds a requirement that the signature page of a signed audit report be scanned and included with the working paper package electronic files and provides a file naming convention for signed audit reports. |
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02-PAS-068(R), September 13, 2002

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| 4-409 | Clarifies the requirements regarding revisions to working papers after the audit report is issued. |
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Chapter 5

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| 5-111.1 | Adds new guidance for nonmajor contractor auditors to obtain and document evidence on the reliability of computer-processed data. |
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02-PQA-050(R), June 25, 2002

January 2003

(13)

5-1005 Adds the requirement to include other direct costs in the scope of audit unless other direct costs are not considered material. Also provides guidance to assist auditor in the evaluation of indirect and direct costs.

Chapter 6

6-414.8 Provides guidance on incorporating the new executive compensation cap into audits for CFY 2002 and beyond.

02-PPD-036(R), May 9, 2002

6-609 Revised to provide a clear, unambiguous statement that all unallowable costs subject to penalty, regardless of the dollar amount, must be included in the audit report. Clarified that while first-level penalties only apply to expressly unallowable costs included in FAR 31.205 or applicable agency supplement, second-level penalties apply to any specific cost determined to be unallowable, or mutually agreed to be unallowable cost, before the submission of the indirect settlement proposal.

6-707.2 Revises guidance on unilateral determinations to reflect development based on recent relevant historical data or in the absence, use of any agency-wide decrement of 20 percent including recommendations for active (in-process) contracts.

02-PPD-063(R), August 28, 2002

02-PPD-049(R), June 29, 2002

6-1007.6 Changed to facilitate the requirement to perform annual examinations of paid vouchers to determine continued participation in the direct billing program. FAOs have the option of performing the examination as part of another audit or as a separate assignment.

02-PPD-043(R), May 21, 2002

02-PPD-025(R), April 15, 2002

6-1009.4 Adds a new subsection to enumerate the procedures for handling contractor data needed to closeout Maryland Procurement Office contracts by a private non-government firm.

02-PAS-019(R), March 11, 2002

Chapter 7

- 7-1004.1 Incorporates changes to FAR 31.205-35, Relocation costs, effective on contracts awarded on or after July 29, 2002.
- 02-PAC-059(R), August 13, 2002
- 7-1202.2 Adds discussion on the allowability of payments made between September 11, 2001 and January 1, 2003 for employee leave donated to a charitable organization.
- 02-PAC-013(R), February 28, 2002
- 7-1914 Adds a new subsection to provide guidance on auditing incurred restructuring costs.

Chapter 9

- 9-212.2 and 9-212.4 Expands guidance regarding circumstances warranting a qualified opinion and a disclaimer of opinion on examination reports.

Chapter 10

- 10-104.7 Section has been expanded to encourage auditors to use charts, graphs, and tables where they result in increased clarity and understanding of complex audit findings.
- 10-203.14 This new section was created to provide guidance on the use of Excel spreadsheets in audit reports.
- 10-206.3 Delete "first line" of address requirement.
- 10-209 Section has been revised to include new requirements regarding hyperlinks within the audit report.
- 10-210.1, 10-210.3, 10-210.4, and 10-210.5 Adds guidance and provides examples of report language to be used when a qualified opinion or a disclaimer of opinion is issued on examination reports.
- 10-210.4 Adds an example of an audit report qualification when the auditor relies extensively on computer processed data without determining the reliability of the data.

02-PQA-050(R), June 25, 2002

10-212.2b	Clarifies guidance on what is to be provided to the contractor at the exit conference.
10-212.2c	Adds additional bullet on the draft and final reports that are not to be released to the contractor.
Figure 10-2-3	Reinstate “DCAA” in the signature block to comply with the DCAA Correspondence Manual.
10-304.4 and 10-304.6	Clarifies guidance when a qualified opinion or a disclaimer of opinion is issued on examination reports. Delete report statement at 10-304.6e pertaining to procurement imposed time restraints.
10-504.3	Adds guidance for a nonmajor contractor where internal controls have not been performed. Also revises example paragraph where the contractor’s accounting system has been audited and deemed inadequate or inadequate in part.
10-504.5c	Removes specific reference to audit reports covering corporate offices.
10-606.5	Section enhanced based on the findings of Strategic Plan Goal 2, Opportunities to Improve the Presentation and Support of Postaward Audit Findings.
10-800	Throughout section, refers to “CAS Board rules” by eliminating “s” i.e., no longer “CAS Board’s rules”.
10-802	Adds item (2) reports on the compliance of initial disclosure statements and reorders the other types of CAS related reports.
10-804.7, 10-805.7, 10-806.8, 10-807.5, and 10-808.7	Changes CAM reference to 10-810.
10-809.6	Adds new subsection on Report Distribution and Restrictions - CAS Cost Impact.
10-810	Deletes the reference to CAS Cost Impact Reports.
10-1104.4	Revises guidance to ensure that the audit report scope qualification paragraph(s) are only included when the auditor renders a qualified opinion.

(16)

January 2003

10-1202a Adds items (17) Performance Based Payments and (18) Quarterly Limitation of Payments (QLOP).

Chapter 14

14-104, 14-115, 14-116
14-122 and 14-123 Sections enhanced based on the findings of Strategic Plan Goal 2, Opportunities to Improve the Presentation and Support of Postaward Audit Findings

14-300, 14-3-1, and
14-3-3 Adds guidance for a DFAS requested financial capability audit on a contractor requesting an installment agreement on debt owed of \$50,000 or more to the U.S. Government. Also provides guidance on requesting a contractor to confirm in writing that the information provided during the detailed financial condition risk assessment and financial capability audit includes disclosure of off-balance sheet arrangements and related party transactions.

02-PPD-008(R), February 4, 2002

02-PPD-028(R), April 26, 2002

14-305.2g. and
14-307a. Adds guidance to ensure cash flow forecast used as a basis for the audit opinion represents a reasonable future time period.

14-306 Revises guidance on report format when a qualified opinion or a disclaimer of opinion is issued on examination reports.

14-910 Adds a new section pertaining to the background and audit responsibility related to Performance-Based Payments (PBPs). The use of PBPs as a financing method is being encouraged within the Department of Defense. The Department's guidance encourages contracting officers to seek DCAA input and continued involvement when negotiating and structuring PBPs.

01-PPD-056, July 20, 2001

TI-000 Revised to provide instructions using Adobe Acrobat Reader as a search engine for CAM.

**OPEN AUDIT GUIDANCE MEMORANDUMS FOR
REGIONAL DIRECTORS (MRDs)**

Audit Guidance MRDs are issued by Operations and Policy and Plans Directorates to change or supplement the Contract Audit Manual (CAM). As the supplemental guidance is incorporated into the CAM, the related MRD is canceled.

Those MRDs open October 1, 2002 the publication date for this CAM edition, are listed below. Auditors are encouraged to update this list as new Audit Guidance MRDs are issued. The listing of open MRDs is updated monthly on the DCAA web site (<http://www.dcaa.mil>).

DATE	MRD NUMBER	SUBJECT	CAMREF
9/30/2002	02-OWD-052(R)	Charging Auditor Effort and Disposition of Incurred Cost Assignment When Contracting Officer Unilaterally Determines Total Contract Cost	NA
9/30/2002	02-PAC-070(R)	Audit Guidance on the Purpose and Applicability of Guidance Issued by Director, Defense Procurement	NA
9/11/2002	02-PPD-067(R)	Audit Alert on FY 2003 Program Plan – Coordination with DCMA Contract Management Offices on Contracts with Funds Due to Cancel in FY 2003	NA
8/28/2002	02-PAC-064(R)	Supplemental Audit Guidance on Changes to FAR 31.205-35, Relocation Costs	7-1004
7/11/2002	02-OWD-039(R)	Audit Management Guidance on DMIS Activity Codes for DCAA Assistance to the Defense Finance and Accounting Service	NA
6/4/2002	02-PAC-046(R)	Audit Guidance on CAS and FAR Part 31 Cost Principles Applicability to Utility Privatization Contracts	NA
5/23/2002	02-PPD-044(R)	Supplemental Audit Guidance on Special Purpose Audits of Contract Overpayments	NA
5/16/2002	02-PAC-040(R)	Transmittal of DDP Guidance on Changes in Cost Accounting Practice	NA
5/14/2002	02-OTS-028(R)	Audit Management Guidance on Electronic Transmission of Correspondence and Audit Reports	Various
5/14/2002	02-PAS-039(R)	Audit Guidance on Reviewing for Fraud Risk Indicators While Planning and Performing the Audit	4-702.3

DATE	MRD NUMBER	SUBJECT	CAMREF
5/9/2002	02-PAC-037(R)	Audit Guidance on Documentation Requirements Under FAR 31.205-33(F)	7-2105
5/6/2002	02-PAC-034(R)	Audit Guidance on FAR Cost Principles Guide (April 2002)	NA
5/2/2002	02-PPD-031(R)	Audit Guidance on Submission Requirements of Interim Public Vouchers	NA
4/12/2002	02-PPD-024(R)	Audit Alert on Identification of Auditor Determined Indirect Cost Rate Settlement Opportunities	6-703d.
3/1/2002	02-PPD-016(R)	Audit Guidance on Department of Defense Policy on Foreign Customer Participation in the Letter of Offer and Acceptance (LOA) and Contracting Development Process	9-103, 9-110, 10-212 and 14-908
2/26/2002	02-PPD-011(R)	Audit Guidance on Final Rule (FAC 2001-02) Amending the Federal Acquisition Regulation (FAR) to Reflect Changes to Office of Management and Budget (OMB) Prompt Payment Requirements	NA
1/9/2002	02-PAC-004(R)	Audit Guidance on Cost Accounting Standards (CAS) Cost Impact-Unilateral Changes in Cost Accounting Practice and Noncompliance with CAS and Disclosed Practices	8-500 & 10-808
11/28/2001	01-PPD-088(R)	Audit Guidance on Providing Assistance to Ensure Contractors are Registered in the Central Contractor Registration Database	5-1100, 6-100, 9-100 and 14-205
11/2/2001	01-OWD-063(R)	Audit Management Guidance on DMIS Activity Codes for DCAA Assistance to the Defense Finance and Accounting Service	NA
10/23/2001	01-PPD-078(R)	Restatement and Clarification of Guidance on Auditor Participation on Integrated Product Teams (IPTs)	1-800, 9-102.1, 10-304.1 and 10-1005
9/12/2001	01-OWD-054(R)	Audit Management Guidance on Part-time FAO Financial Advisory Support Services	NA
8/6/2001	01-PQA-062(R)	Audit Management Guidance - Working Paper Checklist (Version 1.0) for Performing Peer and Post-audit Reviews	2-S10

DATE	MRD NUMBER	SUBJECT	CAMREF
5/3/2001	01-PPD-034(R)	Clarification of Audit Guidance on Completion of the Agency Wildcard 2 Field in the DMIS Assignment Module to Track Incurred Cost Audit Reports Issued w/ Cumulative Allowable Cost Worksheets (CACWS)	NA
5/3/2001	01-PSP-033(R)	Request Audit Guidance from the Defense Acquisition Deskbook's Ask a Professor Program and Other Government Web Sites	NA
5/1/2001	01-OWD-026(R)	Audit Management Guidance on Activity Code for Participation on Contractor/Government ERP Implementation Teams	NA
2/9/2001	01-PPD-016(R)	Audit Management Guidance on Travel Costs for Audit Support Associated with Purchase of Military Technology and Equipment from Russian and Chinese Governments	NA
9/23/2000	00-PPD-083(R)	Clarification of Audit Guidance on Estimating System Deficiencies Concerning Subcontractor Cost Analyses	NA
8/7/2000	00-PPD-070(R)	Audit Coverage of Consultant and Professional Service Costs	NA
4/25/2000	00-PPD-036(R)	Mechanization of Contract Administration Services (MOCAS) System Contract Closeout Initiative	NA

DCAA CONTRIBUTORS TO THIS EDITION

CAM is updated under the general direction of the Headquarters Auditing Standards Division. One of the primary sources for changes to improve the Contract Audit Manual (CAM) is suggestions from DCAA employees. As discussed in 0-007, it is very easy to make changes and all suggestions will be considered. The majority of the suggestions are submitted on the User Reply Sheet discussed in 0-007.

We thank the all individuals who made suggestions to improve this CAM edition. However, the contributor's names are not listed as in previous editions, in consideration of the Department of Defense (DoD) policy on the release of lists of names of DoD employees, as implemented by DCAA in MRD 02-CM-013(R), Release of Employee Names and Other Identifying Information to the Public, dated April 23, 2002.

The names of contributors are posted on the Policy web site located on the DCAA Intranet.